



# Financial Management Report as of JUNE 30, 2010

## AT A GLANCE:

Improved sales tax and other revenues generally offset by lower utility taxes and building revenue (page 3)

2010 Sales tax revenue up from 2009 (page 5)

Building permits down, but Planning fees up (page 5)

New City Manager (page 2 sidebar)

Volatile economic conditions continue (pages 7-8)

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## Summary of All Operating Funds: *Revenue*

- General Fund** actual 2010 revenue is **4.2 percent ahead** of the same period last year primarily due to the timing of the contract payment from Fire District #41. Factoring out this timing issue would bring 2010 revenue just slightly ahead of the same period 2009 (0.9 percent). Increased revenue from sales and property taxes, franchise fees, and internal charges are generally offset by declines in utility taxes and building revenue, as well as significantly lower interest earnings revenue. A more detailed analysis of General Fund revenue can be found on page 3, and sales tax revenue performance can be found beginning on page 5.
- Water Sewer Operating Fund** actual 2010 revenue is **5.9 percent ahead** of the same period last year primarily due to the higher water and sewer rates and despite lower new connection fees. The impact of reduced water usage from the cooler and damper spring and early summer will not be reflected until the third quarter.
- Surface Water Management Fund** actual 2010 revenue is **2.2 percent lower** compared to the same period last year primarily due to timing of revenue collection. Rates are paid through property taxes, which are primarily received in April and October and can be somewhat volatile from year to year.
- Solid Waste Fund** actual 2010 revenue is **3.5 percent lower** compared to the same period last year due to normal variations in timing of revenue collection.
- Other General Government Funds** actual 2010 revenue is **9.8 percent lower** compared to the same period last year primarily due to lower internal rates, as well as reallocation of property tax from the Street Operating Fund to the General Fund. In addition to expenditure reductions taken within each fund, fleet rates were reduced recognizing lower fuel prices and technology rates were reduced recognizing lower personnel costs and use of fund cash for replacement charges as a budget reduction strategy. Lodging tax revenue is down 5.6 percent compared to the same period last year, indicating slowing in the rate of decline from last year, which was down 20.7 percent compared to the same

period in 2008. Motor vehicle fuel tax is up 2.7 percent compared to the same period last year. This may be a sign of increasing economic activity. However, this revenue is down 7.5 percent compared to the same period in 2007 (a peak year). Fuel tax is collected on a flat rate per gallon, so more moderate fuel prices have helped improve this revenue's performance.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	6/30/2009	6/30/2010	% Change	2009	2010	% Change	2009	2010
<b>General Gov't Operating:</b>								
General Fund	25,096,382	26,147,121	4.2%	54,549,760	54,673,277	0.2%	46.0%	47.8%
Other General Gov't Operating Funds	8,842,142	7,977,283	-9.8%	16,563,457	15,655,990	-5.5%	53.4%	51.0%
<b>Total General Gov't Operating</b>	<b>33,938,524</b>	<b>34,124,404</b>	<b>0.5%</b>	<b>71,113,217</b>	<b>70,329,267</b>	<b>-1.1%</b>	<b>47.7%</b>	<b>48.5%</b>
<b>Utilities:</b>								
Water/Sewer Operating Fund	8,050,765	8,523,398	5.9%	19,807,210	20,660,066	4.3%	40.6%	41.3%
Surface Water Management Fund	2,822,776	2,761,482	-2.2%	5,350,962	5,270,500	-1.5%	52.8%	52.4%
Solid Waste Fund	4,290,973	4,140,088	-3.5%	8,612,724	8,627,630	0.2%	49.8%	48.0%
<b>Total Utilities</b>	<b>15,164,514</b>	<b>15,424,968</b>	<b>1.7%</b>	<b>33,770,896</b>	<b>34,558,196</b>	<b>2.3%</b>	<b>44.9%</b>	<b>44.6%</b>
<b>Total All Operating Funds</b>	<b>49,103,038</b>	<b>49,549,372</b>	<b>0.9%</b>	<b>104,884,113</b>	<b>104,887,463</b>	<b>0.0%</b>	<b>46.8%</b>	<b>47.2%</b>

Budgeted and actual revenues exclude resources forward and interfund transfers.



**Kurt Triplett,**  
new City Manager

Kirkland City Council hired Kurt Triplett as the new City Manager in mid-June and he started on June 28th. "His experience and leadership style make him a great fit for the organization and community," notes Mayor Joan McBride.

In his acceptance, Triplett stated "I know through my personal and professional experiences with Kirkland that it is an exceptional community supported by amazingly active neighborhoods and successful schools. I'm honored to be named Kirkland's City Manager and look forward to working with the Council, staff and community to keep Kirkland great."

The City Manager administers and manages the City according to the mission, policies and guidelines adopted by the City Council. Triplett will oversee the operations of ten departments and will be director of the City Manager's Office (CMO). CMO programs include neighborhood services, legislative advocacy, council relations, economic development, public information, tourism and the volunteer program.

Triplett served as King County's Interim County Executive (2009), Chief of Staff to County Executive Ron Sims (2003-2009), Deputy Director of King County's Department of Natural Resources and Parks (1998-2002), and Deputy Chief of Staff under Ron Sims and Gary Locke. He has a Master's Degree in Public Administration from Harvard University Kennedy School of Government (2003) and a Bachelor of Arts in Political Science from Stanford University (1989).

Triplett follows Dave Ramsay, who retired in April with over 12 years of service. Kirkland's first City Manager, Al Locke, was hired in 1965 and served until 1985. He was followed by Terry Ellis, who served from 1985 to 1997. Prior to 1965, the City operated under the strong mayor form of government.

## Summary of All Operating Funds: *Expenditures*

- **General Fund** actual expenditures are **4.5 percent behind** last year primarily due to lower personnel and internal service rate costs and despite an increase in contracted regional dispatch costs. A regional agency began providing dispatch services as of July 1, 2009. This resulted in a shift from salaries and benefits to contracted services, which is the reason for the increased contracted costs and one of the reasons for reduced personnel costs. Personnel costs are also down due to reduced 2010 salaries taken by most employees (who received furlough days in return) as a budget reduction strategy, as well as reduction in staffing and lower overtime costs. The reduction in overtime costs is largely the result of the elimination of the dispatch staffing. A more detailed analysis of General Fund expenditures by department is found on page 4.
- **Other Operating Funds** actual expenditures are **9.9 percent behind** the same period last year due to generally lower personnel costs and internal rates (primarily due to expenditure reductions), reduced Street operating supplies, and lower facility utility costs, and the elimination of the lease payment for the municipal court building, which was purchased last year. Expenditures are behind the same period last year despite higher vehicle/equipment purchases. Facility utility costs are down about 24 percent, partially due to milder winter weather, but also from staff conservation efforts and the pay-off from investments in updated controls and equipment at various locations. Vehicle replacement costs vary year-to-year depending on the planned replacement cycle.
- **Water/Sewer Operating Fund** actual expenditures are **1.6 percent behind** the same period last year primarily due to a significant decline in regional water connection charges (with a corresponding reduction in new connection revenue).
- **Surface Water Management Fund** actual expenditures are **5.3 percent ahead** of the same period last year due to higher personnel costs related to National Pollutant Discharge Elimination System (NPDES) requirements, which requires public outreach and monitoring of surface water discharge, and normal variability in the timing of payment for various services.
- **Solid Waste Fund** actual expenditures are **13.9 percent ahead** of the same period last year due to the timing of disposal contract billing payments. The monthly contract payments are significant, so timing differences between years can skew comparisons. Normalizing for this impact brings expenditures just slightly behind last year.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	6/30/2009	6/30/2010	% Change	2009	2010	% Change	2009	2010
<b>General Gov't Operating:</b>								
General Fund	29,572,757	28,234,274	-4.5%	59,167,520	57,902,884	-2.1%	50.0%	48.8%
Other General Gov't Operating Funds	6,915,953	6,231,171	-9.9%	15,415,335	13,104,036	-15.0%	44.9%	47.6%
<b>Total General Gov't Operating</b>	<b>36,488,710</b>	<b>34,465,445</b>	<b>-5.5%</b>	<b>74,582,855</b>	<b>71,006,920</b>	<b>-4.8%</b>	<b>48.9%</b>	<b>48.5%</b>
<b>Utilities:</b>								
Water/Sewer Operating Fund	7,177,694	7,063,933	-1.6%	15,555,212	15,903,927	2.2%	46.1%	44.4%
Surface Water Management Fund	1,547,925	1,630,159	5.3%	3,605,721	3,448,620	-4.4%	42.9%	47.3%
Solid Waste Fund	3,565,181	4,059,330	13.9%	8,455,673	8,590,036	1.6%	42.2%	47.3%
<b>Total Utilities</b>	<b>12,290,800</b>	<b>12,753,422</b>	<b>3.8%</b>	<b>27,616,606</b>	<b>27,942,583</b>	<b>1.2%</b>	<b>44.5%</b>	<b>45.6%</b>
<b>Total All Operating Funds</b>	<b>48,779,510</b>	<b>47,218,867</b>	<b>-3.2%</b>	<b>102,199,461</b>	<b>98,949,503</b>	<b>-3.2%</b>	<b>47.7%</b>	<b>47.7%</b>

Budgeted and actual expenditures exclude working capital, operating reserves, capital reserves, and interfund transfers.

## General Fund Revenue

*Many significant General Fund revenue sources are economically sensitive, such as sales tax and development-related fees.*

- **Sales tax** revenue allocated to the General Fund for 2010 was adjusted to reflect lower projections as a result of the economic recession. However, actual revenue is **5.8 percent ahead** of the same period last year. A detailed analysis of **sales tax** revenue can be found starting on page 5.
- **Utility tax** actual revenue collection is **2.4 percent behind** the same period last year primarily due to significantly lower revenue from natural gas (down 29.3 percent) and electricity (down 4.7 percent) most likely the result of milder winter weather compared to the previous year along with lower natural gas rates. Telephone tax revenue has improved (up 4.2 percent), but still lagging budget slightly. Water and sewer taxes are up reflecting higher utility rates.
- **Other taxes** actual revenue is **23.2 percent behind** the same period last year due to lower gambling tax revenue.
- The **business licenses (base fee) and franchise fees** actual revenue is **17.1 percent ahead** of the same period last year primarily due to higher franchise fee revenue. The **revenue generating regulatory license** fee is **4.9 percent ahead** of the same period last year. This fee was restructured and substantially increased in 2009. The increase in 2010 is a combination of fully realizing the restructured fees, as well as changes in timing for renewal of larger employers, but revenue from this source is still lagging budget expectations.
- **Development-related fee** revenues, which collectively are **down 21.4 percent** compared to the same period in 2009 are experiencing contrasting trends. Compared to the same period last year, **building permits** are **38.4 percent lower** and **engineering services** revenue is **35.9 percent lower**, while

- plan check revenue** is **ahead 18 percent** and **planning fees** revenue is **ahead 35.8 percent** due to a significant increase in pre-submittal process applications. The increase in the latter two revenues may be a hopeful sign of improvement in future development activity. Note this increase is in comparison to very low collections during the same period in 2009.
- Compared to the same period last year: **Grant** revenue is **18 percent lower** due to the timing of the emergency preparedness program grant last year; **State shared** revenue is down 2.4 percent due to lower liquor control board profits and liquor taxes (it should be noted that if the initiative passes this fall to privatize liquor sales, the potential annual loss of future revenue is about \$350,000 from liquor profits); **Other intergovernmental services** revenue is **29.8 percent below** last year's actual due to the elimination of the contract providing dispatching services to other cities caused by the formation of a regional communications center and despite an increase to revenue received from providing staffing to the regional Criminal Justice Training Center. As mentioned previously, the timing of Fire District 41 contract revenue is somewhat variable, which skews comparisons between years.
- **Internal Charges** are **16.2 percent ahead** compared to the same period last year primarily due to an increase in capital project engineering charges.
- **Miscellaneous** revenue is **74.4 percent behind** last year due to substantially lower interest earnings.
- **Other financing sources** are ahead of last year due to the funding transferred from other funds for 2010 annexation service packages.

General Fund 2010 revenues are about \$1 million higher than the same period in 2009 largely due to the timing of the Fire District contract revenue, higher business and sales tax revenue and despite lower utility tax and development-related revenue. Revenues are in line with amended budget for 2010.

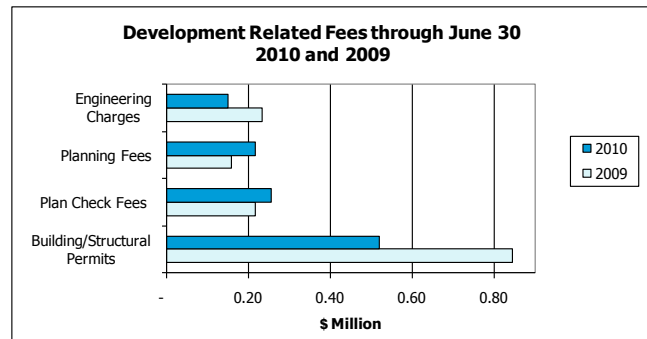
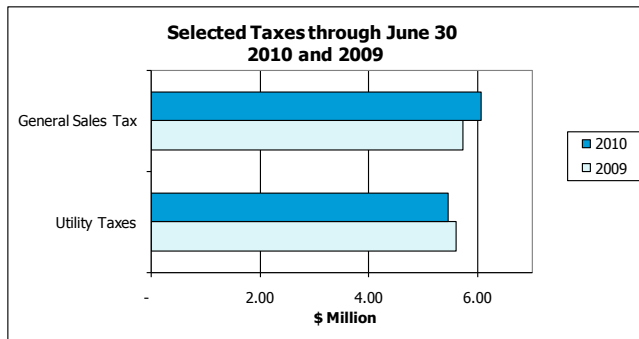
*The General Fund is the largest of the General Government Operating funds. It is primarily tax supported and accounts for basic services such as public safety, parks and recreation, and community development.*

*About 350 of the City's 447 regular employees are budgeted within this fund.*

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	6/30/2009	6/30/2010	% Change	2009	2010	% Change	2009	2010
<b>Taxes:</b>								
Retail Sales Tax: General	5,739,725	6,070,367	5.8%	11,564,551	11,464,179	-0.9%	49.6%	53.0%
Retail Sales Tax: Criminal Justice	483,289	466,365	-3.5%	1,107,000	1,129,140	2.0%	43.7%	41.3%
Property Tax	4,858,805	5,180,444	6.6%	9,264,941	9,904,815	6.9%	52.4%	52.3%
Utility Taxes	5,596,810	5,463,314	-2.4%	10,604,676	10,983,789	3.6%	52.8%	49.7%
Rev Generating Regulatory License	1,138,323	1,193,980	4.9%	2,599,920	2,567,468	-1.2%	43.8%	46.5%
Other Taxes	212,209	162,957	-23.2%	591,779	463,900	-21.6%	35.9%	35.1%
<b>Total Taxes</b>	<b>18,029,161</b>	<b>18,537,427</b>	<b>2.8%</b>	<b>35,732,867</b>	<b>36,513,291</b>	<b>2.2%</b>	<b>50.5%</b>	<b>50.8%</b>
<b>Licenses &amp; Permits:</b>								
Building, Structural & Equipment Permits	843,820	519,866	-38.4%	1,645,600	1,436,990	-12.7%	51.3%	36.2%
Business Licenses/Franchise Fees	774,490	907,168	17.1%	1,654,903	1,720,921	4.0%	46.8%	52.7%
Other Licenses & Permits	100,476	119,548	19.0%	183,500	175,460	-4.4%	54.8%	68.1%
<b>Total Licenses &amp; Permits</b>	<b>1,718,786</b>	<b>1,546,582</b>	<b>-10.0%</b>	<b>3,484,003</b>	<b>3,333,371</b>	<b>-4.3%</b>	<b>49.3%</b>	<b>46.4%</b>
<b>Intergovernmental:</b>								
Grants	184,435	151,187	-18.0%	218,754	533,933	144.1%	84.3%	28.3%
State Shared Revenues & Entitlements	446,999	436,316	-2.4%	908,404	809,010	-10.9%	49.2%	53.9%
Fire District #41	30,694	850,745	N/A	3,850,077	3,598,238	N/A	0.8%	23.6%
EMS	-	-	N/A	836,938	866,231	N/A	N/A	N/A
Other Intergovernmental Services	452,961	317,815	-29.8%	654,713	537,436	-17.9%	69.2%	59.1%
<b>Total Intergovernmental</b>	<b>1,115,089</b>	<b>1,756,063</b>	<b>57.5%</b>	<b>6,468,886</b>	<b>6,344,848</b>	<b>-1.9%</b>	<b>17.2%</b>	<b>27.7%</b>
<b>Charges for Services:</b>								
Internal Charges	2,143,083	2,491,059	16.2%	4,905,963	4,663,482	-4.9%	43.7%	53.4%
Engineering Services	231,520	148,488	-35.9%	357,134	225,000	-37.0%	64.8%	66.0%
Plan Check Fee	216,733	255,714	18.0%	520,000	408,252	-21.5%	41.7%	62.6%
Planning Fees	158,989	215,983	35.8%	247,157	245,420	-0.7%	64.3%	88.0%
Other Charges for Services	408,994	399,493	-2.3%	756,426	752,921	-0.5%	54.1%	53.1%
<b>Total Charges for Services</b>	<b>3,159,319</b>	<b>3,510,737</b>	<b>11.1%</b>	<b>6,786,680</b>	<b>6,295,075</b>	<b>-7.2%</b>	<b>46.6%</b>	<b>55.8%</b>
<b>Fines &amp; Forfeits</b>	<b>644,549</b>	<b>686,442</b>	<b>6.5%</b>	<b>1,407,595</b>	<b>1,532,000</b>	<b>8.8%</b>	<b>45.8%</b>	<b>44.8%</b>
<b>Miscellaneous</b>	<b>429,478</b>	<b>109,870</b>	<b>-74.4%</b>	<b>669,729</b>	<b>654,692</b>	<b>-2.2%</b>	<b>64.1%</b>	<b>16.8%</b>
<b>Total Revenues</b>	<b>25,096,382</b>	<b>26,147,121</b>	<b>4.2%</b>	<b>54,549,760</b>	<b>54,673,277</b>	<b>0.2%</b>	<b>46.0%</b>	<b>47.8%</b>
<b>Other Financing Sources:</b>								
Interfund Transfers	897,645	1,599,538	N/A	3,899,053	2,274,607	N/A	23.0%	70.3%
<b>Total Other Financing Sources</b>	<b>897,645</b>	<b>1,599,538</b>	<b>N/A</b>	<b>3,899,053</b>	<b>2,274,607</b>	<b>N/A</b>	<b>23.0%</b>	<b>70.3%</b>
<b>Total Resources</b>	<b>25,994,027</b>	<b>27,746,659</b>	<b>6.7%</b>	<b>58,448,813</b>	<b>56,947,884</b>	<b>-2.6%</b>	<b>44.5%</b>	<b>48.7%</b>

Budgeted and actual revenues exclude resources forward.

## General Fund Revenue *continued*



## General Fund Expenditures

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	6/30/2009	6/30/2010	% Change	2009	2010	% Change	2009	2010
Non-Departmental	549,412	571,549	4.0%	1,254,877	1,403,818	11.9%	43.8%	40.7%
City Council	213,198	226,099	6.1%	353,175	353,130	0.0%	60.4%	64.0%
City Manager's Office	1,690,813	1,437,925	-15.0%	3,434,631	3,087,640	-10.1%	49.2%	46.6%
Human Resources	520,555	514,121	-1.2%	1,081,720	1,134,956	4.9%	48.1%	45.3%
City Attorney's Office	506,946	486,118	-4.1%	993,790	974,121	-2.0%	51.0%	49.9%
Parks & Community Services	3,154,843	3,191,200	1.2%	7,621,687	6,706,008	-12.0%	41.4%	47.6%
Public Works (Engineering)	1,726,429	1,594,898	-7.6%	3,629,985	3,325,385	-8.4%	47.6%	48.0%
Finance and Administration	1,836,492	1,788,892	-2.6%	3,671,314	3,733,652	1.7%	50.0%	47.9%
Planning & Community Development	1,414,716	1,330,161	-6.0%	2,835,702	2,730,557	-3.7%	49.9%	48.7%
Police	8,749,359	8,225,550	-6.0%	16,557,994	17,136,276	3.5%	52.8%	48.0%
Fire & Building	9,209,994	8,867,761	-3.7%	17,732,645	17,317,341	-2.3%	51.9%	51.2%
<b>Total Expenditures</b>	<b>29,572,757</b>	<b>28,234,274</b>	<b>-4.5%</b>	<b>59,167,520</b>	<b>57,902,884</b>	<b>-2.1%</b>	<b>50.0%</b>	<b>48.8%</b>
<b>Other Financing Uses:</b>								
Interfund Transfers	378,762	303,937	-19.8%	1,705,441	1,254,335	-26.5%	22.2%	24.2%
<b>Total Other Financing Uses</b>	<b>378,762</b>	<b>303,937</b>	<b>-19.8%</b>	<b>1,705,441</b>	<b>1,254,335</b>	<b>-26.5%</b>	<b>22.2%</b>	<b>24.2%</b>
<b>Total Expenditures &amp; Other Uses</b>	<b>29,951,519</b>	<b>28,538,211</b>	<b>-4.7%</b>	<b>60,872,961</b>	<b>59,157,219</b>	<b>-2.8%</b>	<b>49.2%</b>	<b>48.2%</b>

Budgeted and actual expenditures exclude working capital, operating reserves, and capital reserves.

Personnel costs in most General Fund departments are down compared to last year due to the combination of the implementation of furloughs (which reduced salaries and benefit costs) and reduction in staffing as strategies to balance the budget in response to declining revenues. In addition, specific factors for individual departments are noted below:

### Comparing to the same period last year:

- Actual 2010 expenditures for the **City Council** are **6.1 percent ahead** of last year primarily due to a one-time citizen survey paid this year.
- Actual 2010 expenditures for the **City Manager's Office** are **15 percent lower** due to reduced facilities charges resulting from the purchase of the Municipal Court and lower professional services costs, including court interpreter services and the federal lobbyist (which was funded for 2009 only), as well as the timing of outside agency funding payments and other one-time 2009 expenditures.
- Actual 2010 expenditures for the **Parks & Community Services Department** are **1.2 percent ahead** primarily due to the timing of human service agency grants and despite reductions to staffing levels. Expenditures are expected to be within budget by the end of the year.
- Actual 2010 expenditures for the **Public Works Department** are **7.6 percent lower** almost entirely due to staffing reductions and reallocations.
- Actual 2010 expenditures for the **Finance and Administration Department** are **2.6 percent lower** largely due to the previously mentioned furloughs and a one-time study in 2009, and despite one position added in anticipation of annexation.

Compared to 2009, 2010 General Fund actual expenditures are 4.5 percent lower primarily due to lower personnel costs and despite higher costs for the regional dispatch contract, as noted in the explanation of Police and Fire Department expenditures.

(Continued on page 5)



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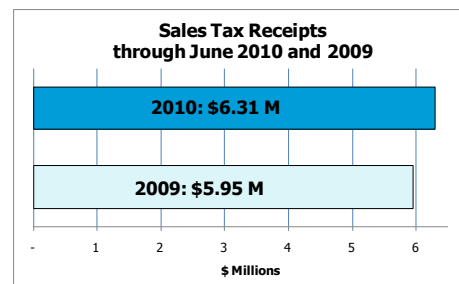
- Actual 2010 expenditures for the **Planning and Community Development Department** are **6 percent behind** due to one-time 2009 costs for the Shoreline Master Plan update, as well as staffing reductions.
- Actual 2010 expenditures for the **Police Department** are **6 percent behind** due to lower personnel costs. Part of this is offset by contract costs caused by the shift from in-house dispatch staffing as of July 2009 to contracting with the agency. Staffing will be hired throughout 2010 in anticipation of annexation, which commences June 1, 2011. Total expenditures are behind last year despite planned increases for equipment and supplies for the new staff. Jail costs are 1.3 percent ahead of the same period last year. These costs have been a concern over the last few years, but are expected to moderate due to contracts with other agencies for lower rates than those charged by King County.
- Actual 2010 expenditures for the **Fire & Building Department** are **3.7 percent behind** due to lower personnel costs. Fire suppression overtime expenses in 2010 are down about 9.3 percent compared to the same period last year, but remain a concern, as the cost is trending above budget.



Summer Concert at Marina Park

### Sales Tax Revenue Analysis

2010 sales tax revenue finishes the second quarter on a positive note, **up 6 percent** compared to the same period last year. Retail sectors are up 4.9 percent collectively compared to the same period last year, largely due to the significant upswing in automobile sales. Contracting revenue was in steep decline last year, and while still far below recent historical performance, the sector has stabilized this year and is no longer in free-fall. These two factors are the primary reasons for improvement to revenue compared to last year (see tables on page 6).



#### Review by business sectors:

- Auto/gas retail** is **up 20.8 percent** compared to the same period last year due to positive performance by all major retailers. Sales performance has been especially strong for the last two months.
- Other retail** is **up 7.9 percent** compared to the same period last year due to electronics, furniture, health care, and internet retailers, as well as the re-classification of one retailer from the general merchandise/miscellaneous retail sector. This is despite the closure of a major sporting goods retailer and declines in building/garden retailers.
- The **services** sector is **up 10.4 percent** compared to the same period last year largely due to software and temporary agency services, likely a result of the sourcing rule change. The accommodations sector started the year slowly, but ends the second quarter up 6.9 percent compared to the same period last year.
- Wholesale** is **up 41.5 percent** compared to the same period last year primarily due to changes in local coding sourcing rules from streamlined sales tax and development-related activity.
- The **miscellaneous** sector is **up 7.1 percent** compared to the same period last year largely due to increases in the manufacturing category, most likely reflecting changes in streamlined sales tax sourcing rules.
- The **contracting** sector is **down 2.3 percent** compared to the same period last year, which is substantially improved from the first quarter, when the sector was down 11.8 percent. Large public projects, including the replacement of Lake Washington High School and the Downtown Transit Center, along with the Bank of America project, have helped contribute to the slowing of the revenue decline in this sector's performance compared to last year.
- General merchandise/miscellaneous retail** is **down 11.1 percent** compared to the same period last year due to disappointing performance by key retailers, the previously mentioned reclassification of one business, as well as impacts from streamlined sales tax rule changes. This sector has replaced contracting as the largest drag on revenue performance.
- Retail eating/drinking** is **down 5.4 percent** compared to the same period last year largely due to the closure of several businesses last year. Recent activity in this sector has improved and a few new restaurants have opened so far this year.
- The **communications** sector is **down 6.1 percent** compared to the same period last year due to reduced development-related activity and declining revenue from telecommunications companies.

#### Streamlined Sales Tax

Washington State implemented new local coding sales tax rules as of July 1, 2008 as a result of joining the national Streamlined Sales Tax Agreement. Negative impacts from this change are mitigated by the State of Washington. About \$61,000 of revenue has been received for the first two quarters of 2010.

#### Neighboring Cities

Bellevue and Redmond 2010 sales tax revenue through June is down 5.1 percent and 1.7 percent respectively compared to the same period in 2009.

## City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-June		Dollar Change	Percent Change	Percent of Total	
	2009	2010			2009	2010
Services	721,290	796,155	74,865	10.4%	12.1%	12.6%
Contracting	855,073	835,461	(19,612)	-2.3%	14.4%	13.3%
Communications	239,027	224,555	(14,472)	-6.1%	4.0%	3.6%
Auto/Gas Retail	1,191,611	1,439,793	248,182	20.8%	20.0%	22.8%
Gen Merch/Misc Retail	977,911	869,645	(108,266)	-11.1%	16.4%	13.8%
Retail Eating/Drinking	547,873	518,231	(29,642)	-5.4%	9.2%	8.2%
Other Retail	757,730	817,234	59,504	7.9%	12.7%	13.0%
Wholesale	285,652	404,290	118,638	41.5%	4.8%	6.4%
Miscellaneous	373,552	399,981	26,429	7.1%	6.3%	6.3%
<b>Total</b>	<b>5,949,719</b>	<b>6,305,345</b>	<b>355,626</b>	<b>6.0%</b>	<b>100.0%</b>	<b>100.0%</b>

*Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to NAICS, or "North American Industry Classification System"). Nine business sector groupings are used to compare 2009 and 2010 year-to-date sales tax receipts in the table to the left.*

## City of Kirkland Actual Monthly Sales Tax Receipts

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2009	2010		
January	994,146	945,992	(48,154)	-4.8%
February	1,224,935	1,364,023	139,088	11.4%
March	954,492	937,460	(17,032)	-1.8%
April	867,726	953,914	86,188	9.9%
May	1,007,790	1,094,845	87,055	8.6%
June	900,630	1,009,111	108,481	12.0%
<b>Total</b>	<b>5,949,719</b>	<b>6,305,345</b>	<b>355,626</b>	<b>6.0%</b>

- Monthly revenue performance in 2010 has improved from the mostly double digit declines experienced throughout 2009.
- February 2010 was substantially ahead of February 2009 primarily due to significant improvements in auto/gas retail, other retail, and contracting. Revenue received in February is from activity in December, so it reflects an important part of the critical holiday shopping season.
- In addition to the economic recession, unusually severe winter weather experienced in December 2008 hampered holiday shopping, which negatively impacted February 2009 revenue.
- The impact of significant improvement in automobile sales and the softening of declines to contracting revenue are illustrated in the positive monthly trends experienced in the second quarter of 2010.

When analyzing monthly sales tax receipts, there are two items of special note: First, most businesses remit their sales tax collections to the Washington State Department of Revenue on a monthly basis. Small businesses only have to remit their sales tax collections either quarterly or annually, which can create anomalies when comparing the same month between two years. Second, for those businesses which remit sales tax monthly, there is a two month lag from the time that sales tax is collected to the time it is distributed to the City. For example, sales tax received by the City in June is for sales activity in April. Monthly sales tax receipts through June 2009 and 2010 are compared in the table above.

*Kirkland's sales tax base is further broken down by business district (according to geographic area), as well as "unassigned or no district" for small businesses and businesses with no physical presence in Kirkland.*

### Comparing to the same period last year:

**Totem Lake**, which accounts for about 30 percent of the total sales tax receipts, is **up 5 percent** primarily due to significant improvement in automotive/gas retail sales and despite the closure of a major retailer. Over 66 percent of this business district's revenue comes from the auto/gas retail and general merchandise/miscellaneous retail sectors.

**NE 85<sup>th</sup> Street**, which accounts for over 15 percent of the total sales tax receipts, is **flat** primarily due to strong automotive/gas retail offset by declines in the general merchandise/miscellaneous retail sectors. These two sectors contribute about 85 percent of this business district's revenue.

**Downtown**, which accounts for almost 7 percent of the total sales tax receipts, is **down 3.5 percent** due to the loss of several retailers and poor performance in the retail eating/drinking sector. The retail eating/drinking, accommodations, and other retail sectors provide almost 68 percent of this business district's revenue.

**Carillon Point & Yarrow Bay**, which account for about 2 percent of the total sales tax receipts, are **down 1.7 percent** compared to last year primarily due to poor performance in the retail eating/drinking sector and despite positive performance in other retail and the accommodations sectors. About 68 percent of this business district's revenue comes from business services, retail eating/drinking and accommodations.

**Houghton & Bridle Trails**, which account for about 2 percent of the total sales tax receipts, are **down 4.3 percent** collectively almost entirely due to miscellaneous retail and other retail. A major supermarket was closed for renovation and re-opened in May, which should positively impact this sector during the third quarter. These sectors provide about 69 percent of these business districts' revenue.

**Juanita**, which accounts for about 2 percent of the total sales tax receipts, is **up 0.7 percent** primarily due to moderately positive performance across most sectors, with the exception of personal and business services. Retail eating/drinking, miscellaneous retail and personal services provide over 70 percent of this business district's revenue.

When reviewing sales tax receipts by business district, it's important to point out that almost 43 percent of the revenue received in 2010 is in the "unassigned or no district" category largely due to contracting revenue (which has declined compared to last year), and increasing revenue from Internet, catalog sales and other businesses located outside of the City.

City of Kirkland Sales Tax by Business District

Business District	Jan - Jun Receipts		Dollar Change	Percent Change	Percent of Total	
	2009	2010			2009	2010
Totem Lake	1,816,678	1,906,960	90,282	5.0%	30.5%	30.2%
NE 85th St	969,783	969,425	(358)	0.0%	16.3%	15.4%
Downtown	451,720	436,001	(15,719)	-3.5%	7.6%	6.9%
Carillon Pt/Yarrow Bay	147,914	145,356	(2,558)	-1.7%	2.5%	2.3%
Houghton & Bridle Trails	149,780	143,357	(6,423)	-4.3%	2.5%	2.3%
Juanita	136,204	137,223	1,019	0.7%	2.3%	2.2%
Unassigned or No District:						
Contracting	855,073	835,459	(19,614)	-2.3%	14.4%	13.3%
Other	1,422,567	1,731,564	308,997	21.7%	26.2%	29.6%
<b>Total</b>	<b>5,949,719</b>	<b>6,305,345</b>	<b>355,626</b>	<b>6.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**Sales Tax Revenue Outlook** Reaching the half-way point of 2010 with positive revenue performance is encouraging, but in reality, it only illustrates that possibly the bottom has been reached and recovery has started. While improved compared to the same period in 2009, revenue is almost \$2.2 million behind the same period in 2007 and \$1.1 million behind 2008. Sales tax revenue was budgeted to remain flat compared to 2010, but is running 6 percent ahead. However, the gain in sales tax revenue is almost offset by lower than expected utility tax revenue. Contracting revenue is no longer in steep decline and automobile sales have significantly improved compared to last year. While these two sectors have contributed to the improvement in 2010 revenue, they also pose significant risks, since both contribute a large percentage of total sales tax revenue and are especially sensitive to economic conditions. Sales tax remains the largest General Fund revenue source, so negative performance has severe consequences to the City's ability to maintain services. The fragile national recovery is mirrored by the local recovery, so the sustained improvement to revenue through the end of the year is uncertain.

**OFFICE VACANCIES:**

According to CB Richard Ellis Real Estate Services, the Eastside vacancy rate is 19.0 percent for second quarter 2010 compared to 14.2 percent for same quarter last year. Kirkland's 2010 vacancy rate is 28.9 percent, significantly higher than the rate in 2008 of 3.8 percent largely due to vacancies in the new space at the Lakeview Plaza complex.

The Puget Sound regional market experienced its first positive absorption of office space in a year, with the largest gain occurring on the Eastside.

As 2010 continues, Google is expected to expand into the remaining space at Lakeview Plaza, creating further positive absorption.

Positive absorption occurs when the total amount of available office space decreases during a set period.

**LODGING TAX REVENUE:**

Lodging tax 2010 revenue is down 5.6 percent compared to the same period last year.

**Economic Environment Update** There is evidence that the economic recovery stumbled in May, both nationally and in Washington State, according to the Washington State Economic and Revenue Forecast Council. Downside risks include weak employment reports in May and June and weak retail sales in May. Construction activity remains low and small businesses face tight credit conditions. On the upside, exports and the aerospace and software industries remain stable. Exports are expected to help Washington State recover faster than the rest of the nation.

Nationally, there has been three consecutive quarters of growth in domestic product; however the Commerce Department recently revised the increase for the first quarter of 2010 downward to 2.7 percent (annualized rate) from the previously reported 3.2 percent. Economists are forecasting stronger growth for the second quarter (3.8 percent annualized), but there is some controversy over the accuracy of the estimate because of weaker consumer spending. (There certainly is varying opinions on this matter; see the outlook and investment strategy sidebar on page 9.) The second quarter data will be released on July 30th. Retail sales dropped 0.5 percent in June, largely due to declining automobile sales. This follows a decline of 1.1 percent in May. These trends also point to a slowing of the recovery in the second quarter. The local impact to June automobile sales will show up in August receipts.

The U.S. **consumer confidence index** dropped to **52.9** in June compared to 62.7 in May, primarily due to employment concerns. The monthly index changes have been particularly volatile in 2010, reflecting the uncertain economic conditions. An index of 90 indicates a stable economy and one at or above 100 indicates growth.

King County's **unemployment rate** is **8.2 percent** in March compared to 8.8 percent in March 2009. While remaining high, King County is considerably lower than both Washington State and national rates, which are 8.7 and 9.6 percent respectively.

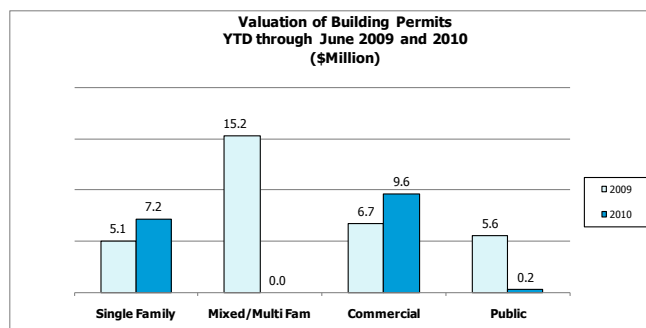
The **Western Washington chapter of Purchasing Managers survey index** short-term outlook rose to 61.8 in June from 60.5 in May. However, the long-term outlook index fell to 55 from 58.7. An index reading greater than 50 indicates a growing economy, while scores below suggest a shrinking economy.

(Continued on page 8)

Local **development activity** through June comparing 2010 to 2009 as measured by the valuation of City of Kirkland building permits is illustrated in the chart to the right. Activity remains improved in the single family and commercial sectors. However, activity in the mixed use/multifamily and public sectors is almost nonexistent and the 2010 building permit valuation is 60 percent below the same period in 2009.

Closed sales of **new and existing single-family homes** on the Eastside are up 25.8 percent in June 2010 compared to June 2009 and the median price increased 2.2 percent (\$550,000 compared to \$538,000). Closed sales for condominium were up 9.2 percent, but the median price dropped 7.7 percent (to \$239,990 from \$260,000). However, the end of the federal tax credit in April is impacting pending sales, which fell 26 percent in June compared to the same month last year. It was the second month of year-over-year declines after 12 consecutive months of gains. While home prices seem to have stabilized, there is some concern that slowing demand will create downward pressure on prices again.

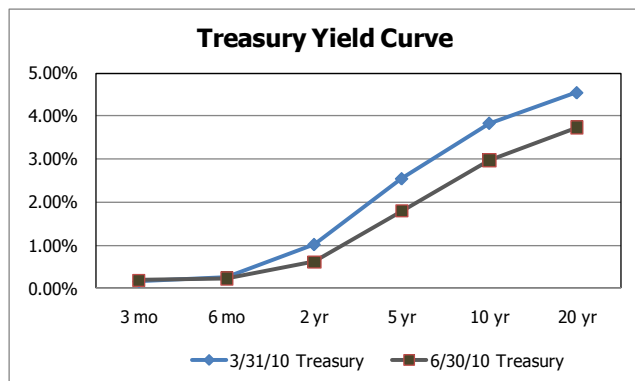
**Seattle metro consumer price index (CPI)**, for June was down 0.10 percent compared to June 2009. This is in contrast to the national index, which was up 1.4 percent. The June index is the contractual basis for budgeting 2011 COLA increases, which means that employees will receive no cost of living adjustment next year. Last June also posted a negative index of 0.7 percent. As a result, employees received no adjustment for 2010. Four bargaining units and management had already agreed to this beforehand as part of a budget reduction strategy. While most economists believe the risk of deflation is remote, declining prices indicate that the economy is losing momentum. Deflation can cause dangerous downward pressure on the economy, as consumers avoid spending money hoping to buy goods later at lower prices.



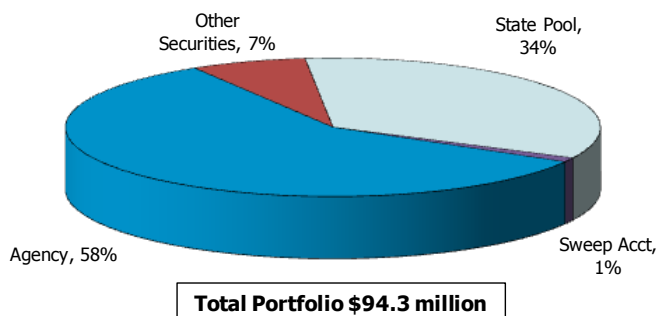
## Investment Report

### MARKET OVERVIEW

The Fed Funds rate continued at 0.25 percent during the second quarter of 2010 as the economy continued giving indications of a very slow recovery. The yield curve dropped slightly as you go farther out on the curve. The 2 year Treasury note rate decreased from 1.02 percent on March 31, 2010 to 0.61 percent on June 30, 2010.



### Investments by Category



### CITY PORTFOLIO

The primary objectives for the City of Kirkland's investment activities are: legality, safety, liquidity and yield. Additionally, the City diversifies its investments according to established maximum allowable exposure limits so that reliance on any one issuer will not place an undue financial burden on the City.

### Diversification

The City's current investment portfolio is composed of Government Agency bonds, State and Local Government bonds, the State Investment Pool and an overnight bank sweep account. City investment procedures allow for 100 percent of the portfolio to be invested in U.S. Treasury or Federal Government obligations.



## 2010 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

The outlook for the U.S. economy over the next few quarters looks stronger now than it did just three months ago, according to 44 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters predict real GDP will grow at an annual rate of 3.3 percent over each of the next two quarters, up from the previous estimate of 2.7 percent. The forecasters now project that real GDP growth will be 3.3 percent in 2010. The forecasters continue to see little threat of accelerating inflation. The unemployment rate is expected to average 9.6 percent in 2010 and fall to 8.9 percent in 2011. The Fed Funds rate, currently at 0.25 percent, is expected to remain at this level throughout 2010.

The duration of the portfolio will decrease as securities mature and are called. Opportunities for increasing portfolio returns are scarce as shorter term interest rates continue at historically low levels. New security purchases will be made as opportunities to obtain moderate returns become available. During periods of low interest rates the portfolio duration should be kept shorter with greater liquidity so that the City is in a position to be able to purchase securities with higher returns when interest rates begin to rise. The State Pool is currently at 0.30 percent and will continue to remain low as the Fed Funds rate remains at 0.00 to 0.25 percent. Total estimated investment income for 2010 is \$1.5 million.

### Investment Report *continued*

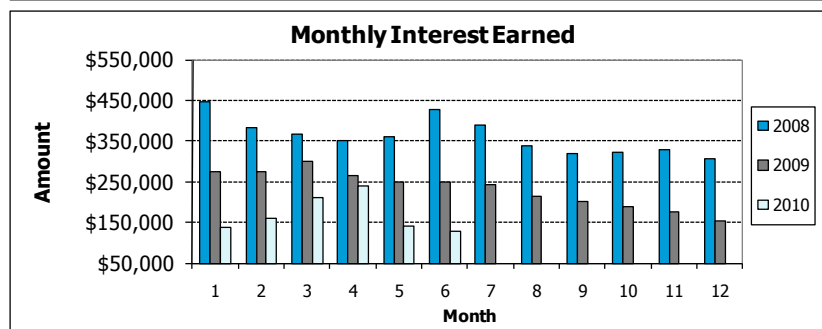
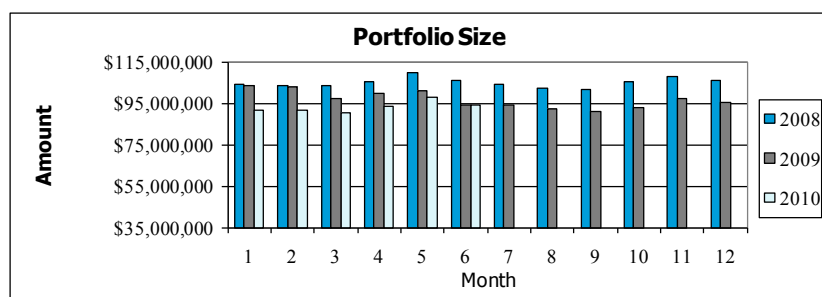
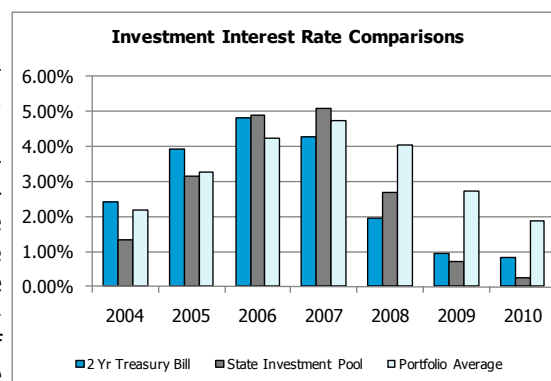
#### Liquidity

The target duration for the City's portfolio is the range between the 90 day Treasury bill and the 2 year Treasury note. The average maturity of the City's investment portfolio decreased slightly from 1.6 years on March 31, 2010 to 1.3 years on June 30, 2010 as securities purchased with higher yields have been called. It is expected that the securities with call provisions will be called on their call dates as the interest rates continue to decline.

Benchmark Comparison	March 31 2010	June 30, 2010
City Yield to Maturity (YTM)	2.08%	1.58%
City Average YTM	2.04%	1.89%
City Year to Date Cash Yield	1.53%	2.03%
90 Day Treasury Bill	0.16%	0.18%
2 yr Rolling Avg 2 yr T Note	1.33%	1.11%

#### Yield

The City Portfolio yield to maturity decreased from 2.08 percent on March 31, 2010 to 1.58 percent on June 30, 2010. The City's annual average yield to maturity declined to 1.89 percent from 2.04 percent during the same period. The City's portfolio benchmark is the range between the 90 day Treasury Bill and the 2 year rolling average of the 2 year Treasury Note. This benchmark is reflective of the maturity guidelines required in the Investment Policy. The City's portfolio outperformed both the 90 day T Bill at 0.16 percent and the 2 Year rolling average of the 2 year Treasury Note, which was 1.11 percent on June 30, 2010. The City's practice of investing further out on the yield curve than the State Investment Pool results in earnings higher than the State Pool during declining interest rates and lower earnings than the State Pool during periods of rising interest rates. This can be seen in the graph above.



## Reserve Summary

### General Operating Reserve

For the City's "Rainy Day" fund, the target is established by fiscal policy at five percent of the operating budget (excluding utility and internal service funds). Each year, the target amount will change proportional to the change in the operating budget. To maintain full funding, the increment between five percent of the previous year's budget and the current budget would be added or subtracted utilizing interest income and year-end transfers from the General Fund. It is a reserve to be used for unforeseen revenue losses and other temporary events. If the reserve is utilized by the City Council, the authorization should be accompanied by a plan for replenishing the reserve within a two to three year period.

### Revenue Stabilization Reserve

The Revenue Stabilization Reserve was approved by Council in July 2003 and was created by segregating a portion of the General Operating Reserve. The purpose of this reserve is to provide an easy mechanism to tap reserves to address temporary revenue shortfalls resulting from temporary circumstances (e.g. economic cycles, weather-related fluctuations in revenue). Council set the target at ten percent of selected General Fund revenue sources which are subject to volatility (e.g. sales tax, development fees and utility taxes). The Revenue Stabilization Reserve may be used in its entirety; however, replenishing the reserve will constitute the first priority for use of year-end transfers from the General Fund at the end of the biennium.

### Contingency Fund

The Contingency Fund was established pursuant to RCW 35A.33.145 to "provide monies with which to meet any municipal expense, the necessity or extent of which could not have been foreseen or reasonably evaluated at the time of adopting the annual budget." State law sets the maximum balance in the fund at \$.375 per \$1,000 of assessed valuation. This reserve would be used to address unforeseen expenditures (as opposed to revenue shortfalls addressed by the Revenue Stabilization Reserve). The fund can be replenished through interest earnings up to the maximum balance or through the year-end transfer if needed.

*Reserves are an important indicator of the City's fiscal health. They effectively represent "savings accounts" that are established to meet unforeseen budgetary needs (general purpose reserves) or are otherwise dedicated to a specific purpose (special purpose reserves). The City's reserves are listed with their revised estimated balances at the end of the biennium in the table below:*

### General Government & Utility Reserves Summary

Reserves	2009-10 Est End Balance	2009-10 Auth. Uses	2009-10 Auth. Additions	Revised 2009-10 End Balance
<b>GENERAL PURPOSE RESERVES</b>				
Contingency	2,324,515	518,557	370,000	2,175,958
General Capital Contingency	2,444,561	266,514		2,178,047
Park & Municipal Reserve:				
General Oper. Reserve (Rainy Day)	2,712,836			2,712,836
Revenue Stabilization Reserve	1,082,380	1,082,380		0
Building & Property Reserve	2,059,669	125,000		1,934,669
Council Special Projects Reserve	271,960	150,426	80,000	201,534
<b>Total General Purpose Reserves</b>	<b>10,895,921</b>	<b>2,142,877</b>	<b>450,000</b>	<b>9,203,044</b>
<b>SPECIAL PURPOSE RESERVES</b>				
Excise Tax Capital Improvement:				
REET 1	8,370,417	2,349,314	266,078	6,287,181
REET 2	8,134,095		361,336	8,495,431
Equipment Rental:				
Vehicle Reserve	6,421,787			6,421,787
Radio Reserve	36,000			36,000
Information Technology:				
PC Replacement Reserve	494,373			494,373
Major Systems Replacement Reserve	247,900	200,000	197,600	245,500
Facilities Maintenance:				
Operating Reserve	550,000			550,000
Facilities Sinking Fund	1,051,963			1,051,963
Impact Fees				
Roads	3,429,578			3,429,578
Parks	237,809			237,809
Park Bond Reserve	558,981			558,981
Cemetery Improvement	523,405			523,405
Off-Street Parking	204,410			204,410
Tour Dock	70,175			70,175
Street Improvement	994,576	32,567		962,009
Firefighter's Pension	1,590,102			1,590,102
Park & Municipal Reserve:				
Litigation Reserve	51,329			51,329
Labor Relations Reserve	67,183			67,183
Police Equipment Reserve	48,093			48,093
LEOFF 1 Police Reserve	612,029			612,029
Facilities Expansion Reserve	800,000			800,000
Development Services Reserve	457,331			457,331
Tree Ordinance	28,980			28,980
Donation Accounts	161,257			161,257
Revolving Accounts	86,175			86,175
Water/Sewer Operating Reserve	1,799,424			1,799,424
Water/Sewer Debt Service Reserve	826,759			826,759
Water/Sewer Capital Contingency	3,018,240	239,200		2,779,040
Water/Sewer Construction Reserve	9,444,066	21,787		9,422,279
Surface Water Operating Reserve	394,485			394,485
Surface Water Capital Contingency	617,690			617,690
Surface Water-Transp. Related Rsv	1,302,179	38,126		1,264,053
Surface Water Construction Reserve	3,186,434			3,186,434
<b>Total Special Purpose Reserves</b>	<b>55,817,225</b>	<b>2,880,994</b>	<b>825,014</b>	<b>53,761,245</b>
<b>Grand Total</b>	<b>66,713,146</b>	<b>5,023,871</b>	<b>1,275,014</b>	<b>62,964,289</b>

**Reserve Summary continued****USES AND ADDITIONS HIGHLIGHTS**

RESERVE	AMOUNT	DESCRIPTION	RESERVE	AMOUNT	DESCRIPTION
<b>2009-10 Council Authorized Uses</b>			<b>2009-10 Council Authorized Additions</b>		
Contingency	\$54,750	Verizon franchise negotiations	Contingency	\$50,000	Reimbursement from Verizon for franchise negotiations
	\$188,262	Hydrant Costs			
	\$272,000	2009 Firefighter Overtime		\$320,000	Replenish reserve from 2009 General Fund expenditure savings
	\$3,545	Return 2008 Interest Backfill to General Fund			
General Capital Contingency	\$64,000	Downtown Transit Center	Council Special Projects Reserve	\$80,000	Replenish reserve from 2009 General Fund expenditure savings
	\$43,800	NE 73rd Street Sidewalk additional funding	Excise Tax Capital REET 1	\$266,078	Closed Capital Projects
	\$98,544	Return 2008 Interest Backfill to General Fund	Excise Tax Capital REET 2	\$361,336	Closed Capital Projects
	\$60,170	Pandemic Flu Supplies	Major Systems Replacement Reserve	\$197,600	Closed Capital Projects
Revenue Stabilization Reserve	\$1,082,380	Backfill General Fund revenue deficit			
Building & Property Reserve	\$125,000	Return 2008 Interest Backfill to General Fund			
Council Special Projects Reserve	\$2,000	Council Retreat facilitator			
	\$26,000	Funding for federal lobbyist services for 2009			
	\$25,000	Funding for Neighborhood Connections in 2010			
	\$20,000	Hopelink relocation			
	\$13,770	Flexpass program			
	\$12,506	Bank of America project review process			
	\$5,000	Council special investigation			
	\$12,400	Medical transport fee consultant contract			
	\$20,000	ParkPlace Development Agreement Legal/Financial			
	\$13,750	Annexation Shoreline Master Plan Services			
Excise Tax Capital REET 1	\$2,349,314	Municipal Court Building purchase			
IT Major Systems Repl. Reserve	\$200,000	Permit Plan System replacement			
Street Improvement Fund	\$23,000	99th Place NE/100th Ave NE Sidewalk			
	\$9,567	2009 Annual Striping Program			
Water/Sewer Capital Contingency	\$54,000	Additional funding of \$54,000 for telemetry system upgrades at Supply Station #2 to coincide with a City-wide upgrade of telemetry panels at other water facility sites.			
	\$128,000	Funding for the completion of the 2009 Water System Improvement Project.			
	\$17,200	NE 73rd Street Sidewalk (watermain replacement) additional funding			
	\$40,000	3rd Street Watermain Replacement			
Water/Sewer Construction Reserve	\$21,787	Bridle View Annexation Water System Purchase from Redmond			
Surface Water-Transp. Related Rsv	\$23,000	Downtown Transit Center (surface water component)			
	\$15,126	NE 124th Street/124th Ave NE Intersection Improvements (surface water component)			

**General Government & Utility Reserves Targets Summary**

Reserves	Revised 2009-10 End Balance	2009-10 Target	Over (Under) Target
<b>GENERAL PURPOSE RESERVES</b>			
Contingency	2,175,958	4,915,571	(2,739,613)
General Capital Contingency	2,178,047	9,032,430	(6,854,383)
Park & Municipal Reserve:			
General Oper. Reserve (Rainy Day)	2,712,836	3,567,649	(854,813)
Revenue Stabilization Reserve	0	2,188,803	(2,188,803)
Council Special Projects Reserve	201,534	250,000	(48,466)
<b>General Purpose Reserves with Targets</b>	<b>7,268,375</b>	<b>19,954,453</b>	<b>(12,686,078)</b>
<b>SPECIAL PURPOSE RESERVES</b>			
Excise Tax Capital Improvement:			
REET 1	6,287,181	1,653,500	4,633,681
REET 2	8,495,431	8,477,130	18,301
Firefighter's Pension	1,590,102	1,103,000	487,102
Park & Municipal Reserve:			
Litigation Reserve	51,329	50,000	1,329
Water/Sewer Operating Reserve	1,799,424	1,799,424	0
Water/Sewer Debt Service Reserve	826,759	826,759	0
Water/Sewer Capital Contingency	2,779,040	3,018,240	(239,200)
Surface Water Operating Reserve	394,485	394,485	0
Surface Water Capital Contingency	617,690	617,690	0
<b>Special Purpose Reserves with Targets</b>	<b>22,841,441</b>	<b>17,940,228</b>	<b>4,901,213</b>
<b>Reserves without Targets</b>	<b>32,854,473</b>	<b>n/a</b>	<b>n/a</b>
<b>Total Reserves</b>	<b>62,964,289</b>	<b>n/a</b>	<b>n/a</b>

*The summary above details all Council authorized uses and additions to each reserve for the biennium through June 2010.*

**Use of the Revenue Stabilization Reserve was part of the budget-balancing strategy for the 2009-10 biennial budget.**

*The table to the left compares the revised ending balance to the targets established in the budget process for those reserves with targets.*



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The Financial Management Report (FMR) is a high-level status report on the City's financial condition that is produced quarterly.

- It provides a **summary budget to actual comparison** for year-to-date revenues and expenditures for all operating funds. The report also compares this year's actual revenue and expenditure performance to the prior year.
- The **Sales Tax Revenue Analysis** report takes a closer look at the City's largest and most economically sensitive revenue source.
- **Economic environment** information provides a brief outlook at the key economic indicators for the Eastside and Kirkland such as office vacancies, residential housing prices/sales, development activity, inflation and unemployment.
- The **Investment Summary** report includes a brief market overview, a snapshot of the City's investment portfolio, and the City's year-to-date investment performance.
- The **Reserve Summary** report highlights the uses of and additions to the City's reserves in the current year as well as the projected ending reserve balance relative to each reserve's target amount.

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- Washington State Department of Revenue
- Washington State Department of Labor & Industries
- City of Kirkland Building Division
- City of Kirkland Finance & Administration Department